



ECONOMIC and FINANCIAL AFFAIRS COUNCIL

Tuesday 11 July in Brussels

*The Council is expected to adopt conclusions on a mid-term review of the EU's **capital markets union** action plan.*

*Ministers will discuss a report on **non-performing loans** in the banking sector. They are due to adopt conclusions setting out an agenda for work to address the issue.*

*The **Estonian presidency** work programme and transparency rules for **tax intermediaries** are also on the agenda.*

*Ministers are expected to adopt **country-specific recommendations** on the member states' economic, employment and fiscal policies, thereby concluding the 2017 'European Semester' cycle.*

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*The **Eurogroup** will meet on Monday 10 July, starting at 15.00. It will hold a thematic discussion on national insolvency frameworks, with a focus on non-performing loans. It will also discuss recent developments in the banking sector, post-programme surveillance in Ireland, the euro area's fiscal stance for 2018 and the further development of the EU's economic and monetary union.*

*On 11 July, ministers will hold a breakfast meeting at 9.00 to discuss the **economic situation**. They will also discuss recent developments in the **banking** sector.*

The Council is scheduled to start at 10.00.

Press conferences:

- after the Eurogroup meeting (*Monday evening*);
- at the end of the Council (*Tuesday lunchtime*).

[Eurogroup agenda highlights](#)

[Press conferences and public events by video streaming](#)

[Video coverage in broadcast quality \(MPEG4\) and photo gallery](#)

1 This note has been drawn up under the responsibility of the press office.

Presidency work programme

The Estonian presidency will present its priorities for economic and financial affairs (Ecofin) for the duration of its term, which runs from July to December 2017.

The Council will hold an exchange of views.

For Ecofin, the presidency programme is aimed primarily at achieving an open and innovative European economy. Its objectives are to:

- encourage economic growth by restoring investment levels and removing barriers to growth;
- ensure a competitive and fraud-proof tax environment;
- secure an EU budget that contributes to the EU's priorities.

The focus of activities will be the EU's banking union and capital markets union, as well as taxation, with a focus on the digital economy and modernising VAT, the EU budget, economic management and the future and the financing of the EU and its economic and monetary union.

- [2017 Estonian presidency programme](#)

Capital markets union - Mid-term review

The Council is expected to adopt conclusions on a mid-term review of the EU's capital markets union action plan.

The draft conclusions renew the Council's commitment to the action plan, highlighting good progress made so far. However a number of challenges have emerged, and with them a need to strengthen the plan.

The plan, launched in September 2015, is aimed at securing a fully-fledged capital markets union by the end of 2019.

It sets out in particular to:

- strengthen capital markets so as to attract more investment, including foreign investment, for European companies and infrastructure projects;
- improve access to finance in particular for SMEs and start-ups, and especially in innovative industries.

European capital markets have expanded over recent decades but remain fragmented. Banks remain the predominant source of financing for businesses. It is expected that stronger capital markets would make the financial system more resilient to shocks, as they would broaden the range of available funding sources.

Nearly two years into the plan, economic recovery in the EU is gaining momentum. However investment rates are still below pre-crisis levels, and this continues to drag on growth in the longer term.

Drawing on the results of a public consultation from January to March 2017, the Commission published its mid-term review on 8 June 2017.

Its communication puts a specific focus on actions related to sustainable finance and financial technology. Furthermore, the future departure of the United Kingdom from the EU and a scheduled review of the EU's framework for financial supervision also give shape to the actions it announces.

The communication sets out three categories of actions to be pursued:

- 1) actions announced in 2015 and not yet delivered. These include legislative proposals:
 - for a pan-European personal pension product to help people finance their retirement;
 - for an EU framework for covered bonds to help banks finance their lending activity;
 - to increase legal certainty on the ownership of securities in a cross-border context.
- 2) the follow-up to actions completed under the 2015 action plan, for instance:
 - legislative amendments to EU rules on the solvency of insurance companies;
 - a recommendation on private placements;
 - a timeline for removing barriers in relation to post-trade market infrastructure;
 - a communication on corporate bond markets;
 - a code of conduct aimed at simplifying withholding tax procedures, with a focus on refunds;
 - a consultation on 'fintech' activities (technology used to support or enable banking and financial services).
- 3) a new set of 9 new priority actions:
 - strengthening the powers of the European Securities and Markets Authority in promoting consistent supervision across the EU and beyond;
 - delivering a more proportionate regulatory environment for SME listing on public markets;
 - reviewing the prudential treatment of investment firms;
 - assessing the case for an EU licensing and 'passporting' framework for 'fintech' activities;
 - measures to support secondary markets for non-performing loans (see separate item below), and initiatives to strengthen the ability of secured creditors to recover value from secured loans;
 - follow-up to the recommendations of a Commission high-level expert group on sustainable finance;
 - facilitating the cross-border distribution and supervision of mutual funds ('UCITS') and alternative investment funds;
 - providing guidance on EU rules for the treatment of cross-border investments, and a framework for the amicable resolution of investment disputes;
 - exploring measures to support capital market development at local and regional level.

The Council is expected to support the Commission's priority initiatives, acknowledging the need to further intensify policy efforts.

Nearly two thirds of actions have already been delivered. Amongst these, the European Parliament and the Council have recently agreed on three major initiatives:

- proposals on securitisation aimed at providing new investment possibilities and an additional source of financing for households and enterprises;
- new rules on venture capital funds aimed at boosting investment in start-ups and innovation;
- new rules that will simplify the publication of prospectuses for the issuing and offering of securities.

However, regulatory reform is only one part of the plan. The capital markets union involves action at different levels (EU, national and subnational), both legislative and non-legislative, depending on the issues to be addressed.

- [Mid-term review of the capital markets union action plan](#)
- [Commission action plan on capital markets union](#)
- [Press release on May 2017 adoption of new prospectus rules](#)
- [Press release on May 2017 agreement on securitisation](#)
- [Press release on May 2017 agreement on venture capital rules](#)

Non-performing loans - Action plan

The Council will discuss a report on non-performing loans, a legacy of the financial crisis that still affects the banking industry in the EU.

It will be called on to adopt conclusions, setting out an action plan to address the issue.

Non-performing loans (NPLs) are bank loans that are subject to late repayment or unlikely to be repaid without requiring the sale of collateral.

They remain at historically high levels within the EU. High NPL levels can drag heavily on investment, and hence on the economy.

According to the report, prepared by a sub-group of the Council's financial services committee, NPLs amounted to nearly €1 trillion at the end of 2016. That is the equivalent of roughly 6.7% of the EU's GDP and 5.1% of total bank loans.

But there are large variations within the EU, where ratios range from 1% to 46%. In some countries NPLs are concentrated in real estate, whilst in others they are scattered across the economy.

The draft conclusions note that high NPL ratios can generate negative cross-border spill-overs and can affect market perception of the EU banking union. Resolving NPLs, on the other hand, can help to reduce financial fragmentation and facilitate capital flows within the single market.

Persistently high NPL levels pose a problem, as they:

- are a drag on bank profitability due to administrative costs and higher funding costs for banks. Provisioning needs deplete banks' capital base;
- pose a risk for the viability of high-NPL banks;
- lock up capital to back unproductive assets, thus weighing down on monetary policy transmission and on the financing of the economy.

Ministers and central bank governors discussed the issue on 7 April 2017 at an informal meeting in Valletta.

The FSC sub-group, established to look into the problem, recommends a mix of policy actions at national and European level.

Drawing on the sub-group's recommendations, the draft conclusions highlight the need for action as regards:

- bank supervision;
- the reform of insolvency and debt recovery frameworks;
- the development of secondary markets for NPLs ('distressed assets');
- restructuring of the banking industry.

Banks are primarily responsible for restructuring their business models and resolving their NPL issues. However, given their current magnitude, NPL stocks in some member states may not decline at a satisfactory pace, despite the economic recovery.

The draft conclusions emphasise that measures to address the issue would be beneficial for the EU as a whole. Incentives for banks to deal with NPLs proactively should be enhanced, whilst avoiding the disruptive effects of fire sales. Measures should both address existing stocks of NPLs and prevent a further accumulation of NPLs in the future.

- [2017 report of the FSC subgroup on non-performing loans](#)

Tax intermediaries

The Commission will present, under 'other business', a proposal on transparency rules for tax intermediaries such as tax advisors, accountants, banks and lawyers that design and promote tax planning schemes.

Member states find it increasingly difficult to protect their tax bases from erosion, as tax planning structures become ever more sophisticated. Media revelations such as the April 2016 'Panama Papers' have exposed how some intermediaries actively assist companies and individuals to escape taxation, often through complex cross-border schemes. The proposal is aimed at preventing such planning by increased scrutiny of their activities.

Under the directive, certain types of cross-border tax planning schemes would have to be reported to the tax authorities before being used. The proposal identifies 'hallmarks' to indicate which types of schemes would have to be reported. The requirement to report a scheme would not imply that it is harmful, only that it merits scrutiny.

Member states would be required to automatically exchange the information they receive through a centralised database. This would enable an early warning on new risks of tax avoidance and for measures to be taken to block harmful arrangements. Member states would be obliged to impose penalties on those companies that do not comply with the transparency measures, thereby creating a deterrent.

Under the proposal, the reporting requirements would enter into force on 1 January 2019. Member states would be obliged to exchange information every three months thereafter.

To adopt the directive the Council needs unanimity, after consulting the European Parliament. (Legal basis: articles 113 and 115 of the Treaty on the Functioning of the European Union.)

- [June 2017 proposal for a directive on transparency rules for tax intermediaries](#)

Economic and fiscal policies - Country-specific recommendations

The Council is due to adopt, without discussion, recommendations to 27 member states² on their economic, employment and fiscal policies.

The draft recommendations assess the economic and employment policies set out in the member states' 'national reform programmes'. They include draft opinions on the fiscal policies set out in their 'stability' and 'convergence' programmes.

Adoption of the texts will conclude the 2017 'European Semester' policy monitoring process, following endorsement by the European Council on 23 June. The Council approved the economic and fiscal parts on 16 June. The employment policy parts were approved by the Employment, Social Policy, Health and Consumer Affairs Council on 15 June.

The European Semester is an annual process for the simultaneous monitoring of the member states' economic, employment and fiscal policies.

² All except Greece, which is subject to a macroeconomic adjustment programme.

In the light of policy guidance given by the European Council annually in March, the member states present each year in April:

- national reform programmes for their economic and employment policies. These include a macroeconomic scenario for the medium term, national targets for implementing the 'Europe 2020' strategy for jobs and growth, identification of the main obstacles to growth, and measures for growth-enhancing initiatives in the short term;
- stability or convergence programmes for their fiscal policies. Eurozone countries present stability programmes, whereas non-euro member states present convergence programmes. These set out medium-term budgetary objectives, the main assumptions about expected economic developments, a description of fiscal and economic policy measures, and an analysis of how changes in assumptions will affect fiscal and debt positions.

The Council then agrees country-specific recommendations and opinions. It provides explanations in cases where the recommendations do not comply with those proposed by the Commission.

It requires a qualified majority to adopt the texts. (Legal basis: articles 121(2) and 148(4) of the Treaty on the Functioning of the European Union.)

In March 2017, the Council adopted a specific recommendation on the economic policies of the euro area. It did so at an earlier stage in order to take greater account of eurozone issues when approving the country-specific recommendations.

- [July 2017 draft country-specific recommendations](#)
- [Explanations of modifications to the 2017 draft country-specific recommendations](#)
- [March 2017 Council recommendation on the economic policies of the euro area](#)

Other items

The following items will be raised under 'other business':

- **financial services:** the Council will be updated regarding work on legislative proposals;
 - [July 2017 secretariat progress report on financial services dossiers](#)
- **tax intermediaries:** the Commission will present a proposal on transparency rules for intermediaries that design and promote tax planning schemes (see separate item above).

Without discussion, the Council is due to adopt:

- **country-specific recommendations** on economic, employment and fiscal policies (see separate item above).
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